THE FEDERAL RAISIN MARKETING ORDER

Marketing Economics Division Economic Research Service U.S. Department of Agriculture

PREFACE

This report is intended primarily for raisin producers and packers, and others interested in the Federal Raisin Marketing Order. The emphasis of the report is on the immediate and practical courses of action the raisin industry might take to improve its economic position by using the tools provided by the Order. Accordingly, little attention has been given to some broader problems, including those that encompass the grape industry as a whole, particularly the wine industry, that involve courses of action beyond the scope of the Order.

In this study, the author drew heavily on earlier studies of the industry, particularly the three publications below by Dr. Norman Townshend-Zellner. The reader interested in a more detailed analysis of the earlier years of the raisin industry's operations under the Federal Raisin Marketing Order is encouraged to read these reports:

"Raisin Marketing, Preliminary Economic Highlights" (with Loyd C. Martin, co-author) AMS-204, Agricultural Marketing Service, U. S. Department of Agriculture, August 1957.

"The California Raisin Industry--Prices, Returns, Economic Adjustments," Agricultural Economics Report No. 11, Economic Research Service, U. S. Department of Agriculture, July 1962.

"The Effect of Marketing Orders on Market Structures and Some Consequent Market Developments," Journal of Farm Economics, Vol. 43, No. 5, December 1961, pp. 1357-65.

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SUMMARY

The California raisin industry includes more than 6,000 raisin producers and over 20 packing firms who produce and market more than 40 percent of the world's supply of raisins. The typical crop of 200,000 to 250,000 tons has a farm value in the neighborhood of $50 million. During its 90-year history, the industry has grown and prospered, but has also suffered serious economic reverses. The dislocations experienced immediately after World War II, including declining domestic per capita consumption, loss of foreign markets, excessive market supplies, and as a result, depressed prices, caused the raisin industry to seek solutions to its economic problems through the Federal Raisin Marketing Order. Inaugurated in 1949, the Order has been in continuous operation for 15 years.

The raisin industry has used effectively the tools provided in the Order to achieve several benefits. These include substantial increases in prices paid to raisin producers and in packers' margins, expansion of sales in foreign markets, and progress toward orderly marketing. The industry has moved from an intolerable situation, prior to 1949, to a workable although not fully satisfactory marketing structure. However, several important problems remain. Some of these can be alleviated in the near future by industry actions within the framework of the Order. These actions include the following: (1) reducing price and market instability and, indirectly, instability of incomes and production, and (2) expanding total raisin production and sales.

An immediate and potentially effective attack on market and price instability can be made through revision of present volume-control regulations under the Order. The following suggestions are offered for industry consideration:

(1) Establish the free-tonnage allocation each year in actual tons, using a percentage of an estimated total raisin production, to give each handler his proper share. The free-tonnage allocation is easily determined on the basis of packers' sales of free tonnage in recent years.

(2) Establish the free-tonnage allocation by about August 1 for the next crop year beginning September 1, instead of waiting until early October, so as to give both producers and packers a valuable aid for decision making. This would facilitate planning of production and marketing operations and promote more orderly marketing, which is a basic objective of the Order.

(3) Abolish the reserve pool. This unique feature of the Order not only is not necessary to achieve its objectives but, in practice, diminishes the effectiveness of the volume regulations and weakens the market position of the industry.

(4) Allow the surplus pool to be simply the difference between the free tonnage and total production (deliveries to packers).

Although material increases in domestic consumption of raisins may seem unlikely, a modest expansion of exports is probable. In this connection, the Raisin Administrative Committee could assist raisin packers through revision of its administration of the surplus pool. The current policy of full disposal of the surplus by the end of a crop year frequently leaves packers with no raisins to sell in foreign markets. A policy of carrying over a modest and variable inventory of surplus raisins into the new crop year could make California raisins available in foreign markets most of the time, aid efforts to expand exports, and help stabilize prices and returns. This policy, of course, must be considered in light of the broader objective of maximizing producer returns.

During the 15-year history of the Federal Raisin Marketing Order, farm prices of raisins have increased relative to prices received by growers of grapes in other outlets. But the long-term raisin production trend in California has been downward. This suggests that raisin production costs have increased enough to offset most of the price advances, and by more than published cost estimates indicate. It also suggests that production uncertainties confronting growers may have increased as a result of both weather and market factors, further decreasing the comparative attractiveness of raisin production. Confronted with limited potential for increasing raisin consumption and market prices, the industry needs to examine closely both immediate and long-term methods of reducing production uncertainties and production and marketing costs. A revision of the volume regulation procedures under the Order, as suggested above, would have the potential of reducing some of the uncertainties confronting farmers.

Another immediate approach to the uncertainty problem is a possible improvement in the administration of the crop insurance plan available to the independent growers who produce roughly 60 percent of the total raisin output. Development of an improved program, however, may be difficult as it probably would require organization of a cooperative to work with the Federal Crop Insurance Corporation (FCIC) primarily for this purpose. Whether a sufficient number of independent raisin producers will be willing to do this, even though the benefits are potentially large, is uncertain.

Finally, it is suggested that the industry seriously consider a direct attack, through an intensive and properly financed program of research and education, on the production and marketing inefficiencies that adversely affect producer and packer incomes. In recent years, the industry has made slow progress in technical and economic efficiency. The Federal and State marketing orders provide the tools for cooperative action on a program with high potential benefits in years to come. However, such a program will require that industry leaders give somewhat less attention to current market strategies and struggles for individual market shares and more attention to a program designed to increase the net income position, market power, growth, efficiency, and welfare of the industry as a whole.

THE FEDERAL RAISIN MARKETING ORDER

By
Norris T. Pritchard 1/

Raisin production, packing, and marketing is an important agricultural industry in California. Some 6,000 raisin producers in the State produce about 40 percent of the world's supply of raisins. The typical crop of 200,000 to 250,000 tons supplies all the raisins consumed in the United States--about 1.5 pounds per person--plus usually sizeable volumes for export to Canada and other Western Hemisphere countries, to Japan, the United Kingdom, Western Europe, and other countries. Raisins provide California farmers annually with more than $50 million of cash income, and raisin packers with an additional $15 to $20 million.

Raisin production and marketing in California has about a 90-year history. During these decades the industry has grown and prospered, but has also experienced serious problems. Immediately after World War II, it suffered from unusually severe economic dislocations. Marketable supplies of raisins were excessive, mainly because of declining per capita domestic consumption and reduced exports. The latter, in turn, were largely the result of postwar economic and monetary dislocations. Raisin prices and grower incomes became severely depressed and markets unstable.

In 1947, the raisin industry received financial assistance from the Federal Government, chiefly in the form of export subsidies and purchases of raisins by the Government for domestic food distribution programs. This assistance, discontinued in 1954, was not viewed, however, by the industry as a permanent solution for its problems. And leaders of the industry working with the U. S. Department of Agriculture developed a Federal Raisin Marketing Order under the terms of the Agricultural Marketing Agreement Act of 1937. The Order became effective in 1949, and has been in continuous operation since.

ECONOMIC BENEFITS OF THE ORDER

The raisin industry has used the tools provided in the Federal Raisin Marketing Order to achieve several valuable economic benefits for its producers and packers. 2/ One of the benefits has been substantial price increases received by raisin producers during the 15 years the Order has been in operation. Producer prices have increased from an average of $131 a ton in the 1947-49 crop years, and $135 in the 1949 crop year, to an

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2/ In addition, the Federal Government has gained materially because the Order helped the raisin industry to improve its economic position to the point that direct financial assistance to the industry became unnecessary.

estimated $204 a ton in the 1963 crop year. In relation to parity prices, season-average prices to producers rose from 74 percent in 1949 to about 85 percent for the 1959-61 crop years. This rise actually was greater than these percentages suggest, because parity prices also rose. And in 5 years when raisin production was below normal, season average prices to producers were above parity. Producer prices also have increased relative to prices received by raisin grape growers selling in the other principal outlets for raisin grapes--wineries and fresh markets.

Packers appear to have benefited through wider gross margins that rose from about $50 a ton in 1949 to an estimated $85-$90 in 1963. As a result of these increases, retail prices have risen, but the farm share of the retail price was about the same (close to 44 percent) in the crop years 1960-62, as in the 3 years prior to initiation of the Order, 1946-48. During most of the intervening years, the farm share was even higher. This is in sharp contrast with the farm share of foods as a group, which is now near 37 percent of the average consumer dollar spent for food, and which has declined markedly from the high of 52 percent reached early in the postwar period. 3/

A second material benefit to the industry of the Raisin Marketing Order has been the development of foreign markets for raisins. When the Order was initiated in 1949, sales of California raisins in foreign markets could be made only with great difficulty and with the aid of export subsidies. Although raisin exports increased some after 1949 without special efforts by the industry (as former customers recovered from the effects of World War II), the concerted efforts made by the Raisin Administrative Committee, the raisin packers, and the California Raisin Advisory Board and other agencies were effective in further developing foreign markets. An outstanding example is Japan, where raisins previously were not sold. Japan is now one of the principal importers of California raisins.

3/ To suggest that these evidences of economic benefits to producers and packers since 1949 are primarily attributable to the Federal Raisin Marketing Order probably ascribes too much influence to the Order and to industry leaders and Department officials who have contributed so much to its success. The raisin industry, like others, has benefited from national economic growth and prosperity; but the industry appears to have done somewhat better as a result of the Order than have most agricultural industries. Nor is it accurate to suggest that much of the economic benefit to those producers remaining in the raisin industry is the result of the departure of large numbers of former producers from the industry because of the Order. From 1949 to 1959, the number of producers of Thompson Seedless raisins fell about 30 percent, from 7,771 to 5,366, but during a roughly comparable period, 1950 to 1959, the Census of Agriculture shows that the total number of farms in California fell about 28 percent, from 137,168 to 99,274, and the number of farmers producing raisin-variety grapes dropped more than 25 percent, from 12,165 to 8,997. In other words, most of the decline in numbers of raisin producers probably is due to causes largely outside the influence of the Order, such as those resulting in consolidations of farms and similar changes in American agriculture.

In a third important area, the Order provides another tool the industry has used effectively. Early in the history of the Order, the raisin industry had difficulty meeting the demands of buyers and the Food and Drug Administration on the quality and condition of raisins marketed. In 1955, the industry developed a program to improve the quality of the raisins delivered to packers, and the quality of those packed and marketed. Although this program, and particularly the Order requirement for official inspection of raisins delivered by producers, has been the subject of much discussion and review, it has operated without appreciable change for 8 years. Industry leaders seem to agree that the program has improved the quality, facilitated sales in domestic and foreign markets, and brought price premiums in foreign markets for California raisins. On the other hand, the program probably has raised production costs for ranchers, accentuated uncertainties of raisin production due to weather factors, and caused some producers to cease raisin production, entirely or in part, in favor of marketing grapes in alternative outlets--particularly wineries.

Another favorable effect of the Raisin Marketing Order from the industry viewpoint is the greater price and income stability that the volume and quality controls have provided. Price stability is especially noticeable in years of volume regulation and is in sharp contrast to the instability of prices in the 5 years when, as the result of short crops that caused prices to go above parity, volume regulation was not legally permissible.

Finally, several incidental benefits to the industry have developed from the administration of the Order. A primary requisite for good administration is adequate and accurate economic information. Such information is generated, collected, and disseminated mainly by the Raisin Administrative Committee (RAC). The primary purpose of this information is to serve as the factual basis for the determination of the marketing policies recommended by the RAC to the Secretary of Agriculture. But the information also has many other uses in the industry, particularly in facilitating understanding, and in individual and group decision making and action.

The Raisin Advisory Board and the Raisin Administrative Committee are the mechanisms that facilitate both discussion and decision making within the industry. In addition to the primary task of determining marketing policies and indirectly prices and margins, the Board and Committee provide forums for discussion of problems of ranchers and packers. The RAC also has taken decisive action in promoting sales of products abroad, in working with government agencies in solving problems arising from the operation of the quality-control program, and in developing a crop-insurance program for raisin producers.

On the other hand, and in spite of the apparent successes of the Federal Raisin Marketing Order, several important problems in the raisin industry remain unsolved. In general, these may be alleviated or solved by using the tools provided by the Order more effectively. The key problems deserving the most careful consideration include: (1) Reduction of instability and uncertainties in prices (and indirectly, in production and income); (2) expansion of total industry production and sales; (3) improvements in

management of the surplus over domestic market needs; (4) development of an improved system of crop insurance; and (5) elimination of certain "unfair" trade practices. The remainder of this report is concerned with these problems and with the potentials for effective action by the raisin industry under the Order.

PRICE, PRODUCTION, AND MARKET STABILITY

Raisins, for most producers, are only one phase of a multi-grape operation, and many vineyard owners also produce other crops, particularly other fruits and cotton. Growers of Thompson Seedless grapes, the principal raisin-grape variety, can readily market their crop in several alternative outlets. They can produce raisins or they can sell fresh grapes to wineries, for table use, or for canning. Shifting among outlets may account for some of the year-to-year fluctuations in raisin production, and indirectly for the resulting fluctuations in market prices and incomes of producers and packers.

Variations in annual raisin production greatly exceed fluctuations in total production of raisin-variety grapes because the percentages of the total crop going into the several outlets also change. Crop-use statistics indicate a pronounced tendency for the percentage of raisin grapes utilized for raisins to fall in years when the total production of raisin grapes declines, and to rise in years when total raisin-grape production increases. Since 1949, of the 14 year-to-year changes in raisin-grape production and the raisin-utilization percentage, 11 have been in the same direction. For example, the very small 1950 crop was the result of a small decline in raisin-grape production from 1,421,000 tons in 1949 to 1,332,000 tons in 1950, and a sharp drop in the raisin-utilization percentage from an abnormally high 73 percent to an unusually low 47 percent. The much larger 1951 crop resulted from an increase in raisin-grape output to 1,809,000 tons and a recovery in the raisin-utilization percentage to 54 percent.

The variability in raisin and wine production has been a vexatious problem for both the raisin and wine industries for many years. It was one of the principal reasons why the raisin industry requested the Federal Raisin Marketing Order in 1949. It was one of the major factors responsible for the short-lived Grape Crush Order.

Throughout the 15-year history of the Federal Raisin Marketing Order, a primary objective of the industry has been to reduce fluctuations and uncertainties of production, price, and income, particularly in its volume allocation operations. Although the industry has made much progress under the Order toward this goal, the frequent references to it in the annual marketing policy statements and annual reports of the Raisin Administrative Committee clearly indicate that the problem remains. Perhaps a fair evaluation of the situation is that progress toward greater stability under the Order has been significant because a clearly intolerable, nearly chaotic situation has changed into a workable but less-than-satisfactory condition. Leaders of the raisin industry obviously prefer greater stability and economic certainty

and the resulting improvement in price and income. Also, improvements in production and marketing efficiency flow from an increased stability in the industry.

Revision of Tonnage-Allocations Methods

Study of the volume-regulation procedures under the Federal Raisin Marketing Order suggests that a simple, but basic, change in them might be helpful to packers and producers. Each year, the Raisin Administrative Committee waits until about October 10 to recommend its marketing policy for the year to the Secretary of Agriculture. The key element of this policy is the recommended allocation of the total raisin crop into free, reserve, and surplus tonnages. Thus, the extremely important decision on allocations is not made until nearly 6 weeks after the beginning of the crop year on September 1, after nearly the entire supply of raisins has been produced, and at least 10 weeks after raisin producers must have decided (in early August) whether to market their grapes as raisins or to wineries.

Delaying the final decision on marketing until October is unfortunate, but it is difficult to obtain accurate crop estimates earlier in the season. Although the harvesting and laying of grapes for raisins begin in August, the operations continue until about mid-September, and drying requires 10 to 20 days depending on weather conditions. Thus, until early October, the Federal-State Crop Reporting Board cannot provide the industry with a highly accurate estimate of total raisin production for that year, which is the basic figure in the calculations of the volume allocations. Accuracy of the production estimate determines the accuracy, in large measure, of the allocations of free, reserve, and surplus tonnages. 4/

The most serious adverse effect of this delay in establishing the industry's marketing policy is the uncertainty it creates for producers, packers, and major buyers of packed raisins. This uncertainty in turn, according to industry leaders, is a serious deterrent to decision making and positive action during the critical August-October period. This is the most important period in the year for decision making, both by ranchers on whether to lay raisins or sell to wineries, and for packers in buying raisins from ranchers and merchandising packed raisins to the trade.

The uncertainty about the total raisin production and industry marketing policy is an important factor that causes the industry's major customers, especially buyers, to delay placing orders for raisins. Buyers generally are reluctant to buy more than their immediate needs at fixed prices, fearing that prices may decline if producers deliver more than was estimated. The uncertainty of deliveries to packers is further accentuated by the practice of some producers of holding raisins on farms until late in the crop year. This means that the actual free, reserve, and surplus tonnages are not known

4/ To assure availability of these production estimates, the RAC annually pays the Federal-State Crop Reporting Service for special raisin production surveys and estimates.

with certainty until near the end of the crop year. In other words, despite the heavy volume of deliveries in October-December, neither the industry nor its customers can be certain about marketable supplies for some months after the beginning of the crop year.

The uncertainty about marketable supplies, according to the general managers and sales managers of leading packers, leads directly to instability of market prices, and increases the difficulties of marketing the industry's output. It is also partially responsible for the practice of "selling" packed raisins under contracts that seem to packers to be grossly one-sided. Under these contracts, packers agree to protect their customers against future general price declines on the undelivered portion of their total order and to guarantee them against any future price increases. In addition, these agreements usually require the packer to hold a designated volume of raisins for the customer for future delivery on his order, but do not require the customer to order the whole volume thus reserved for him. In short, many so-called sales are at indefinite prices and for indeterminate quantities. This type of market situation also encourages some packers to engage in price discounting from announced market prices and to unsettle the price situation even further.

With the prices of packed raisins in domestic markets uncertain--particularly in the critical August-October period--independent raisin packers, who handle more than half of the total crop, naturally hesitate to make firm offers to raisin producers until after the annual marketing policy has been established and the volume of free tonnage they can buy is estimated with satisfactory accuracy. This explains why producers must decide whether to produce raisins, under conditions of great price uncertainty, and why a large portion of the crop is delivered to packers each year under open-price agreements. These allow the packer to accept delivery and to delay price determination and final settlement until a later date, usually prior to December 31. The independent packers, most of whom are small, are reluctant to commit themselves to firm prices until the leading packer, Sun-Maid Growers of California, a producer cooperative, announces its price quotations on the new crop. But the cooperative, in order to obtain the highest possible revenues for its members, tends to delay its price announcements until the independents already have invested substantial funds in unprocessed raisins. Once the independents are financially committed, they have less room for price maneuvering. That is, they are less able financially to discount prices to customers and, in effect, to lower the prices to raisin producers. In short, the industry, through this jockeying for position to protect divergent interests, creates for itself considerable price, income, and market uncertainty which it would prefer to avoid.

Fortunately, the Federal Raisin Marketing Order can provide a tool to alleviate this problem. Also, fortunately, the necessary changes in the Order and in methods of establishing the tonnage allocations would not be drastic. These changes would be to: (1) Establish the total free tonnage allocation in absolute terms, for example, 135,000 tons, supplemented by percentage allocations to establish individual packers' shares; (2) establish this tonnage allocation not later than August 1, that is, in ample time for

producers to decide whether to make raisins or to sell to wineries; (3) eliminate the reserve allocation; and (4) establish the initial surplus tonnage as the difference between the total deliveries and the free tonnage allocation.

The Fixed Free Tonnage Allocation

Although the suggested change in procedures for setting the initial free tonnage allocation may seem to differ sharply from current practice, the difference actually is not pronounced. Since the beginning of its operations, the Raisin Administrative Committee has used its estimate of expected sales of packed raisins by the packers in domestic markets (including exports to Canada and other countries in the Western Hemisphere) as the principal determinant of the free tonnage. In recent years it appears to have been the sole factor, except for small adjustments necessary to compensate for an abnormal packer inventory position at the beginning of the crop year. Furthermore, this estimate of expected sales is largely determined by the average of packers' free tonnage sales in the three immediately preceding crop years.

During the 15-year history of the Federal Raisin Marketing Order, packers' sales in domestic and Western Hemisphere markets have been remarkably stable in total volume. Excluding the crop years when total production was abnormally low due to weather and other factors (1950, 1957, and 1958), these sales have not been below 127,000 tons in any year or above 144,000 tons. In most years, sales have been close to the midpoint--135,500 tons--of this range. The average for the crop years 1960-62 was 135,155 tons. In its recommendation of marketing policy for the 1963 crop year, the Raisin Administrative Committee set the free tonnage at 132,000 tons. This volume is essentially equal to the 135,000-ton average when adjustment of the slightly above normal beginning inventory of 21,252 tons is taken into account. In addition, when the industry learned, subsequent to approval by the Secretary of Agriculture of the free-tonnage allocation of 60 percent, that the rain damage to the 1963 crop was much greater than was previously expected, and that producer deliveries would be nearer 200,000 tons than 220,000 tons, the Raisin Administrative Committee quickly assured packers that 12,000 tons would be made available from the reserve pool so as to assure packers of a free tonnage of not less than 132,000 tons. Thus, in effect, in 1963, the industry set the free tonnage in actual tons rather than as a percentage of total deliveries. This action was welcomed by packers as an aid to them in their merchandising operation and it reportedly was an important factor contributing to price stability in the markets for packed raisins in the fall of 1963. Thus, the industry can expect to benefit from this suggested procedural change which involves little more than doing directly and certainly what it now actually does indirectly.

Earlier Determination of Initial Free Tonnage

The traditional argument for waiting until October to establish the free tonnage allocation has been that an accurate allocation cannot be determined until accurate estimates of the raisin crop are available.

This argument is based on the concept that the RAC actually decides on the percentage of the current crop that shall be free tonnage. But, as shown above, the reverse of this is more nearly the practice. That is, the RAC decides what the actual free tonnage ought to be and then fixes the percentage needed to obtain approximately this tonnage. This is not only an awkward and uncertain method, but it precludes the benefits possible from making industry policy on free tonnage known at a much earlier date each crop year.

The primary advantage of determining the initial free tonnage in midsummer, probably not later than August 1, is that producers, packers, and raisin buyers would be assured of a fixed tonnage available for domestic (free) sales rather than an indefinite volume, dependent on a fixed percentage of an uncertain total production. Assuming that this free tonnage is the same as in prior years, major buyers would not expect the new-crop-year deliveries to affect the quantities available for sale by packers, nor expect prices, as a result, to fall later in the crop year. Such an argument is difficult to counter when total deliveries are uncertain. Domestic market prices, therefore, could be expected to remain firm and essentially unchanged from the previous year. With packers' selling prices stabilized, packers would incur less risk in early negotiations with producers on prices. Packers might even feel confident enough about the market situation to guarantee to producers a minimum price on their free-tonnage purchases.

The effect of minimum price guarantees to producers on their production decisions cannot be determined without further intensive study of their responses to prices and other factors. But since producers and packers generally agree that the high degree of price uncertainty that has prevailed in the past during the raisin production season has been a deterrent to raisin production, simple logic suggests that a reduction in price uncertainty should cause some producers to produce larger volumes of raisins. Economists are generally agreed that a reduction in price uncertainty can affect farmers' production decisions in the same way as would an expected price increase.

An earlier determination of the annual free tonnage allocation and its establishment as actual tonnage rather than as a percentage of an uncertain total production might also alleviate the present "unfair" trade practice problem. When raisin buyers have more confidence in the stability of market supplies and prices, they may feel less need for the protection afforded under the present selling agreements. That is, buyers may be more willing to buy fixed volumes of raisins at firm prices. To the extent that such sales can be made, the stability of the domestic markets for raisins will improve.

Eliminate the Reserve Tonnage Allocation

From its inception, the Federal Raisin Marketing Order has required the allocation of raisin deliveries to packers into free, reserve, and surplus tonnages. In the 11 years of volume control the initial reserve tonnage allocations have been set as low as 10 percent (1956) and as high as 24

percent (1953). The most frequently used allocation (4 times) has been 20 percent of total deliveries. The traditional argument for this unique provision of the Order is simple. A reserve tonnage is needed as a cushion (1) against unexpected differences between the total volume of raisins actually delivered by producers and the October estimates on which the percentage allocations are based, and (2) against unexpected increases in total domestic market requirements during the crop year. The Order provides a simple procedure for transferring raisins from the reserve to the free tonnage, and an automatic transfer of any inventory in the reserve pool on August 1 to the surplus pool. Thus, if actual deliveries are less than the October estimates and the fixed free-tonnage percentage provides packers with less free tonnage than they need, or if sales are higher than anticipated, this deficit can be covered by transfers from the reserve pool. In short, the reserve tonnage actually does serve as a cushion. But this need for a cushion is more apparent than real, and the known presence of a reserve tonnage readily available for free tonnage sales may defeat, in part, one of the primary objectives of the volume control regulations under the Order.

The need for the reserve tonnage as a cushion against uncertainties of the future may be questioned on two counts. First, surplus raisins can be made available for free-tonnage uses during the crop year in the event free-tonnage sales exceed the combined free and reserve tonnages. Although a transfer from surplus cannot be made as easily as from the reserve tonnage, this might prove to be an advantage, not a disadvantage, for the raisin industry. 5/

Second, the primary need for a cushion under the free tonnage stems from the present practice of setting the initial free tonnage as a percentage of an estimated--not a known--volume of deliveries. Therefore, if the free tonnage were initially set in actual tons, the failure of deliveries during the crop year to come up to the October expectations would not ordinarily affect the total free tonnage available to packers. Only in those most unusual crop years, when deliveries are grossly below the October estimates, would transfers from the surplus pool be necessary. 6/ A transfer from the surplus pool also can be made during the crop year if the initial free tonnage set under the suggested new method is too small. However, the likelihood of error in setting the free tonnage under the proposed procedure seems rather small in view of the stability of free-tonnage sales over the past 15 years.

5/ Transfers from the free tonnage to either the reserve or surplus pool are prohibited under the Order and no change in this limitation on RAC action is suggested here.

6/ In years when the October estimates of crop-year deliveries are below free-tonnage requirements, the entire crop most likely will be allocated to the free tonnage initially; that is, volume controls will be suspended in that year.

The reserve-tonnage allocation seems to weaken the effectiveness of the industry's volume control program under the Order. That is, the presence of the reserve may encourage price and market instability and other undesirable trade practices which the industry is trying to prevent through the mechanism of the Federal Raisin Marketing Order.

According to the general and sales managers of leading raisin packing firms, the raisin industry's major and most knowledgeable customers are fully aware of the presence of the reserve. They also know how it is established and its potential for becoming part of the free tonnage. That is, these customers with substantial buying power are fully aware that the combined free and reserve tonnages in most years exceed probable requirements of the primary domestic market. It is only natural, therefore, that they should take advantage of this relatively weak bargaining position of raisin packers and seek substantial price discounts and other concessions. In other words, the combined effects of the uncertainty as to the volume of free tonnage resulting from the percentage method of allocation and the presence of potential excess free-tonnage volumes in the form of a reserve tonnage adversely affect the ability of the raisin industry to improve its market and income position through the volume regulations and orderly marketing processes. To the extent that raisin packers, because of the uncertainties and increased marketing costs resulting from unstable marketing conditions, require larger gross margins, prices to producers are lower. Thus, the reserve allocation may be eliminated not only because it is unnecessary to the successful operation of the control features of the Order, but also because it impairs the ability of the industry to accomplish the main objectives of the Order.

The Surplus Pool

Under the changes relative to the free and reserve tonnages suggested above, the allocation to the surplus pool would be the difference between the actual tonnage declared as free and the producers' actual deliveries of raisins. Although this may seem to be a sharply different allocation of procedure from the present practice, it is not. Currently, and in the past, the surplus pool always has absorbed all of the excess of deliveries over free tonnage sales. The suggested new allocation methods would not alter this in any real sense. 7/

Percentage Allocations as Guidelines to Packers

Although the suggested changes in allocating total raisin deliveries to free and surplus pools imply complete elimination of the percentage method of allocation, this is not the case. Percentage allocations will continue to be needed, but only as guidelines to packers and to assure reasonable equity to packers in the handling of the surplus pool. Currently, each packer as he receives raisins from producers must set aside (as reserve and as surplus raisins) for the Raisin Administrative Committee those percentages of his total receipts that are established in the Order by the Secretary of Agriculture for the current crop year. If these add to, say, 40 percent, the packer knows that he is obligated to pay producers directly for 60 percent

7/ Later in this report, some suggestions are offered for improvements in the current practices of handling the surplus pool.

of their deliveries. Also, this free tonnage can be used by him at once in whatever manner he sees fit.

But with the initial free tonnage set as a fixed volume and with total deliveries uncertain, a packer will not have a clear guide as to how much of his receipts are his own free tonnage and how much must be held as surplus for the RAC. A reasonable remedy for this situation is to provide guidelines to packers in the Order for percentage allocation and for subsequent adjustments of differences between the tonnages allocated by the percentage method and by the the suggested procedure. The following example illustrates how simply this can be handled.

Assume that in August, the Secretary of Agriculture sets the free tonnage allocation at 132,000 tons. Then assume that early in October, the final estimate of total raisin production is given as 220,000 tons. The RAC can then establish the free-tonnage guideline to packers at 60 percent and order 40 percent of total receipts held as surplus. The packer then pays producers for 60 percent of his receipts and awaits directions from the RAC on the remainder. Now assume that sometime later as producers deliver raisins, deliveries for the crop year obviously will be either nearer 200,000 tons, or 240,000 tons. In the case of the smaller volume and an initial percentage guideline that has proven to be too low, the RAC can release immediately to packers sufficient tonnage from the surplus (about 12,000 tons) at average free-tonnage prices to give each packer his fair share of the 132,000 free tons, based on his share of total receipts of all packers. In the event the actual deliveries exceed the estimate used in setting the guidelines, the packers will have paid producers for a greater volume as free tonnage (in this example 144,000 tons instead of 132,000 tons) than the volume of free tonnage previously established. This difference, due to setting the free-tonnage guideline too high, can be considered as a packer-owned equity in the surplus pool. Later in the year, as the net revenues from the surplus raisins are distributed to producers, each packer can share in this distribution to the extent of his holdings, and can receive an additional adjustment for the (typically) higher free-tonnage prices over the net returns from the surplus pool. Thus, the administrative problem should not impose any real barrier to the suggested changes in methods of allocating the free and surplus tonnages. However, the RAC probably would find it desirable, in protecting producer interests and in easing its administrative problem, to set the free-tonnage guideline percentage below the anticipated final percentage.

Unfair Trade Practices

Some raisin packers complain that the industry has become involved in certain methods of pricing and selling raisins which (1) adversely affect their gross returns and the prices they can pay producers; (2) adversely affect their merchandising and sales-expansion efforts; and (3) needlessly increase the instability and uncertainties of operation. These practices include: (1) Persistence among small packers in offering discounts to buyers from the prevailing price quotations of the larger firms; (2) the practice among packers of guaranteeing to buyers to meet all general price declines, but of not requiring the buyers to meet any general price rise; and (3) the

practice among packers of agreeing to hold designated volumes of raisins for later delivery without a firm guarantee from buyers that orders will be forthcoming. Furthermore, these packers argue that the control potentials of the Federal Raisin Marketing Order have not been fully used to correct the situation.

Packers sell most of their packed raisins through food brokers. A small percentage of their sales are made directly to a few large food chains who maintain buying offices in Pacific Coast cities, chiefly San Francisco. In general, they face a decreasing demand for their produce because of the increasing availability of other convenience foods such as frozen fruits.

Most raisin packers are small firms. Even the sales of the large firms in the industry are not large in terms of modern standards in the food processing industries. In addition, the ability of the small firms to remain in business suggests that economies of scale in raisin packing and marketing are not large. Thus, few, if any, raisin packers possess a significant degree of market power, particularly in selling bulk packs to bakeries and other industrial and institutional users. This weakness seems primarily responsible for the continued use of the one-sided agreements with major customers.

Although the Order presently has provisions for regulation of "unfair" trade practices, the industry so far has not used these tools of self-regulation. Some packers probably would welcome some regulation, but the problem of enforcement might be too great to make it practical. The smaller packers probably would be at a serious disadvantage in marketing if they could not discount from prices quoted by the major packers.

Any measures that reduce instability of production and price, including those suggested earlier in this report, strike at the cause of some of these undesirable practices.

EXPANDING PRODUCTION AND SALES

During the 15-year history of the Federal Raisin Marketing Order, farm prices of raisins, as officially reported, have increased sharply relative to prices received by growers for raisin grapes in other outlets. Industry leaders and observers also agree that, in spite of relatively low raisin prices and returns in some years, raisin production probably has been a more remunerative outlet than alternative outlets for raisin grapes. Nevertheless, the long-term trend in raisin production in California has been downward both in actual tonnage and as a percentage of total uses of raisin grapes. This contrast between actual and expected responses of raisin-grape growers to an improved price and returns relationship seems to be the result of several factors.

Three possible causes of declining production warrant examination: (1) Production costs for raisins may have increased relative to costs of

producing raisin grapes for other outlets by more than enough to offset the relative increase in prices. (2) The well-known drying ratio of 4 pounds of fresh grapes to 1 pound of raisins, used for many years in making the official estimates of raisin prices and production in terms of fresh equivalents, may have increased. Therefore, the continued official use of the 4:1 ratio may introduce a serious upward bias in reported raisin-wine price relationships, and a downward bias in both the estimates of total raisin-grape production and in the percentage of the raisin-grape crop used for raisins. And (3) the production and income uncertainties in raisin production may have increased, at least in the minds of many raisin-grape growers, thereby causing producers to view raisin production as a decreasingly attractive outlet even at apparently increasingly favorable price relationships.

Raisin Production Costs

Specialists in the economics of producing raisin grapes have estimated, on the basis of budget analysis of typical vineyard operations, that raisins can be produced in California at an additional cost of only 2 to 6 percent per ton of fresh grapes compared with total costs of producing and harvesting grapes for wine. 8/ Examination of these published cost guidelines, however, reveals that some costs incurred by many producers were not included. These additional items are: (1) The inspection fee assessed on all raisins delivered to packers, currently $1.35 a ton; (2) the FCIC crop insurance premium, $4.25 a ton (or $1.50 a ton for Sun-Maid members); (3) the rental fee for sweat boxes charged by packers (for the boxes used to harvest raisins from the field for delivery to packing plants), $2.60 a ton; (4) the California Raisin Marketing Order assessment (for promotion, advertising, and research), $2.50 a ton; and (5) the losses incurred on farms from mold, handling, and other causes prior to delivery of raisins to packers (and the costs, if any, of reconditioning raisins rejected at plants as off-grade raisins in accordance with provisions of the Order).

The sum of the first four items above is $10.70 a ton, or nearly 6 percent of the estimated total cost of producing raisins. When these additional costs are added to the published cost guidelines, the extra costs of producing raisins compared with producing the same grapes for wine may increase the fresh-equivalent cost of raisins to about 110 percent of the cost of grapes for wine.

Although a minority of producers are not insured and although packers sometimes absorb the inspection and box rental charges, the estimate of 10 percent higher costs per ton of fresh grapes for producing raisins seems reasonable, and possibly even low, since published production cost guidelines appear to make no allowance for several additional cost items that

8/ California Agricultural Extension Service. Establishing a Vineyard in the San Joaquin Valley--Thompson Seedless Raisins for Raisins or Wine, AXT-60, March 1962 (and similar releases for earlier years).

are difficult to measure. These are: (1) Expenses associated with obtaining an adequate number of seasonal workers for harvesting and turning grapes for raisin making; (2) expenses, if any, for housing migratory workers; and (3) an allowance for the additional time spent by the vineyard operator during the raisin-making season.

The fifth factor, losses of raisins on farms during the raisin drying and handling processes, may be another major cost factor not included in the above cost estimates which are based on the assumption of zero loss of the grapes laid for raisins. Although such losses regularly occur and probably have been increasing, satisfactory estimates of their volume are not available. In some years, losses from weather and normal handling on farms may be less than 5 percent; additional losses incurred at plants, including cost of reconditioning some off-grade raisins, are likely to be negligible. In other years, losses incurred both prior to and subsequent to delivery may be large, perhaps more than a third of the total crop. Furthermore, as the Raisin Administrative Committee has indicated in its annual reports, losses on farms may have increased substantially since 1955. That was the year the grade and condition program was initiated by the industry under the Order. The requirements of this program and the efforts by the RAC, the packers, and farm advisors to educate producers have caused them to take increasing care to eliminate defective fruit prior to delivery. Thus, although clear evidence is lacking, losses of fruit on farms and in plants probably have been increasing. A comparable increase in losses of grapes going to wineries probably has not yet developed, although the wineries are now under some pressure on the quality of incoming grapes. Therefore, real costs of producing raisins probably have increased more, relative to costs of producing grapes for wine, than available reports indicate.

If the loss of raisins on farms is 5 percent, and if no appreciable loss is sustained in harvesting grapes for wine, the truly comparable difference in production costs for the two outlets is not 10 percent, but about 16 percent. A 10-percent loss factor raises the cost difference to 37 percent.

If the low estimate of about 16 percent higher production costs for raisins is applied to official estimates of prices for the 15 years, 1949-63, the comparative-returns advantage of raisins over production of raisin grapes for wine is sharply lower. During this period, the fresh-equivalent prices of raisins (computed with the 4:1 drying ratio) averaged $51.96 per ton. This is about 35 percent above the average of $38.53 per ton paid for raisin grapes by wineries. The estimate of a 16-percent cost factor, however, reduces this returns advantage to roughly a sixth. Although this still is a substantial differential, in 4 of the 15 years the average fresh-equivalent prices of raisins were about equal to, or less than, 16 percent above average prices paid by wineries.

In other words, the conclusion suggested by this analysis is that if all raisin production and fruit losses are taken into account, the true comparative advantage of the raisin outlet over the wine outlet is far less

than crude raisin and wine price relationships indicate. In some years, the raisin-outlet advantage probably has been near zero, or even negative. And in some years, the true net-returns advantage may have been less than enough to compensate producers for the extra work and uncertainty accompanying raisin production. Accordingly, the response of raisin producers in reducing raisin production may be fully consistent with the economic situation in which they operate. Furthermore, this suggests a need for research designed to assist farmers to become more efficient in raisin production so as to increase their net returns.

Possible Statistical Errors

Another factor that raises doubts about the apparent advantage of producing grapes for raisins rather than for wine is the accuracy of the familiar 4:1 drying ratio for raisins. In the late 1920's, on the basis of studies conducted by the University of California, the raisin industry and official crop-estimating agencies adopted the 4:1 ratio for computing the fresh-grape equivalent of raisin production. The ratio means that 1 pound of raisins is equivalent, on the average, to 4 pounds of fresh raisin grapes.

In recent years, questions have been raised regarding the accuracy of this important conversion factor and recent field tests indicate that the common 4:1 ratio may be seriously in error. From sample tests with the 1959-63 crops, the California Crop and Livestock Reporting Service has estimated average drying ratios of 4.13:1.0 to 4.7:1.0.9/ The average for the 5 years is about 4.38:1.0. This ratio does not include an allowance for losses of raisins during drying and handling on farms.

These higher drying ratios probably have not surprised industry leaders, farmers, and raisin-production specialists. In recent years, raisin producers have tended to harvest their grapes and lay them in vineyards somewhat earlier in the season than in past years. The purpose of this is to decrease hazards from adverse weather during the drying period. But the earlier harvesting tends to reduce the sugar content of the grapes, to produce lighter raisins, and to raise the drying ratio. In addition, the same cultural practices that have been responsible for higher grape yields per vineyard acre, such as increased use of fertilizer and water, probably have reduced the sugar content of the grapes and contributed to increasing the drying ratio. These observations, therefore, suggest an upward trend in the drying ratio during the past 15 years, or longer, and that this trend is correlated with the upward trend in grape yields per acre.

Using the estimated average drying ratios from 1959 to 1963, the tabulation below gives an indication of the effect on grape prices for raisins relative to grapes for wine on a fresh-equivalent basis.

9/ California Crop and Livestock Reporting Service. California Fruits--Annual Summary. Calif. Dept. Agr., Sacramento, Calif., Dec. 23, 1963 (mimeo.).

Crop Year	Revised drying ratios	Raisin prices per ton under		Prices per ton paid at wineries
		4:1 ratio	Revised ratio	
1959	4.35:1.00	$49.00	$45.06	$41.80
1960	4.37:1.00	53.00	48.51	36.10
1961	4.70:1.00	51.00	43.40	33.40
1962	4.13:1.00	66.25	64.19	44.10
1963*	4.33:1.00	51.00	47.11	33.80

*Preliminary

The new average drying ratio for this 5-year period of 4.38:1.0 drops the average fresh-equivalent price of raisins from an estimated $54.05 a ton to $49.65 a ton. Accordingly, raisin prices averaged about 28 percent above the average price of $38.84 for raisin grapes in the wine outlet instead of nearly 39 percent higher. In individual years, the effect of the adjustment is even more marked. For example, in 1959, the new drying ratio, 4.35:1.0, reduced the fresh-equivalent price of raisins to less than 8 percent above the average price farmers received at wineries. Such a differential probably is not enough to compensate raisin producers for their higher production costs. It is interesting to note, too, that raisin production in 1960 was well below the 1959 output.

The higher drying ratios have the opposite effect on the fresh-equivalent estimates of production of raisin grapes and on the percentage of the total grape crop used to make raisins. That is, both estimates increased. The 1959-63 official estimate of the average production of raisins was 219,500 tons per year. On the 4:1 basis, this becomes 878,000 fresh tons, or a raisin utilization of 48.2 percent of the average raisin-grape crop of 1,821,000 tons. But on the basis of the average ratio of 4.38:1.0, the average annual volume of grapes used for raisins was 962,000 tons, or 50.5 percent of the also higher average of total raisin grapes of 1,905,000. That is, the raisin utilization percentage has declined less than official statistics have indicated, and the average price of raisins has increased less, relative to fresh-grape prices in other outlets. In other words, raisin grape growers have shifted to a lesser extent than previously thought from raisins to other outlets. And with price relationships considerably less favorable to raisin producers than earlier official statistics indicated, the downward trend in raisin production then seems much less inconsistent. In fact, if raisin production costs have risen substantially relative to the cost of producing raisin grapes for other outlets--and this seems probable--the action of farmers in reducing raisin production in favor of production of grapes for wine is consistent and logical. Programs to assist farmers to increase production efficiency may be pertinent.

Production Uncertainties and Crop Insurance

Production uncertainty is a third factor that raises doubts about the adequacy of net returns to raisin producers, and provides additional explanation of farmers' responses to relative prices of raisins and fresh grapes. Uncertainty as to the weather during the several weeks when raisins are drying in vineyards is accentuated by the raisin-quality standards imposed by the grade and condition program under the Order.

The San Joaquin Valley is America's raisin land because its dry, hot, sunny, August-September days are nearly ideal for making natural, sun-dried raisins. But the weather is not always ideal. This is why ranchers, packers, and others in the Valley anxiously watch the sky during the raisin-drying period, and why nearly everyone feels a sense of relief when the raisin crop is in from the vineyards.

Although raisin producers regularly experience small losses from adverse weather and other causes, losses in 1958 and 1963 were especially heavy. The 1958 experience is a vivid and painful memory for nearly all producers. Producers and packers seem agreed that occasional adverse weather, combined with a strong fear that raisins may be rejected by inspectors at plants, have caused many producers to shift all or part of their production to wineries.

This response by raisin-grape producers to uncertainty is logical. As long as the real net-returns differential between the two outlets is not large, a raisin-grape grower loses relatively little net income by shifting part of his total crop from raisins to wine. In return, he obtains a partial hedge against serious crop and income losses, reduces his own work load, reduces the time and uncertainty involved in obtaining a supply of seasonal labor for harvesting and laying grapes for raisins, and reduces his uncertainties and worries about prices, income, and weather.

Some industry leaders also suggest that the absolute, as well as the relative, prices paid by wineries affect the willingness of raisin-grape growers to make raisins. That is, when winery prices are high enough to give a grape grower a "fair return" on his vineyard operation, the expected value of the greater, but uncertain, net return from raisin production drops sharply in the minds of many producers. But if prices at wineries fall below the required "fair-return" level, the incentive to producers to make raisins seems to rise markedly. The logic of this is basically sound. It means that most producers place a higher value on expected additional income from raisins when the expected return from the principal alternative outlet is below a reasonable income level than when it is above that level.

The actions that the raisin industry can take under the Federal Raisin Marketing Order to reduce these uncertainties are limited. Nothing can be done about the weather, and changes in production technology to reduce its impact probably cannot be developed soon. For example, breeding an improved variety of Thompson Seedless grape that would mature two or three weeks earlier probably would require years of intensive effort. Nevertheless, the industry can take several actions that may reduce uncertainty. The suggestions

presented earlier for reducing the instability of market prices and for providing incentives to packers to offer price guarantees to producers are some of the essential actions. A research program designed to aid farmers to lower production costs would be helpful in the long run.

Another action with possibly more immediate benefits to producers involves an improved system of administering the crop-insurance program. The heavy crop loss in 1958 stimulated intense interest among raisin producers in crop insurance. In 1960, the Sun-Maid Growers of California initiated an insurance program for its members, and in 1961 a different type of policy was made available by the Federal Crop Insurance Corporation for other producers. By 1963, about 5,000 of the nearly 6,000 growers were covered by one of the two plans.

Under the Sun-Maid plan, growers are insured, not individually but as a group, by a group of private insurance companies. The plan requires the cooperative to absorb from its own funds the first $100,000 of loss in any crop year. The plan then pays the cooperative for additional losses sustained, up to a maximum of $5 million. The stated premium cost to Sun-Maid growers is $1.50 a ton, but actually the premium cost may be substantially more, depending on loss and other factors. The deductible feature alone may cost the cooperative, and indirectly the grower, another $1 or more a ton; also the cooperative absorbs the expenses of administration. The cooperative requires each member to deliver his entire production to the Sun-Maid plant. All loads of raisins rejected as below standard grade are placed in a separate pool. The plant then tries to recondition the raisins and to recover as high a percentage of standard quality raisins as possible. These are marketed in the usual trade channels for standard raisins, and the remainder are sold for nonfood uses. The costs and returns from these operations plus benefits paid by the insurance companies are charged to the off-grade pool. In practice, then, this pool has a net cash balance which can be distributed to each grower participant. Thus, the Sun-Maid crop-insurance program insures against losses and each producer receives some benefits whether his losses are large or small.

The FCIC program, on the other hand, is based on a quite different concept. It is, in essence, insurance to cover direct operating costs. Therefore, an accurate comparison of the FCIC and Sun-Maid plans is difficult to make. Under the FCIC plan, substantial losses must be borne by the producer before he receives any insurance benefits, but then the plan pays the full amount of his loss up to a maximum payment of $150 a ton for all raisins produced in his vineyard. 10/ That is, if he grosses from the sale of both standard and off-grade raisins (minus reconditioning costs) more than $150 multiplied by the number of tons produced, he receives no insurance benefit payment. However, with a total crop failure, he receives a payment that probably covers his direct operating costs. The FCIC insurance premium is $4.25 a ton per year. The premium is based on the expectation that in a period of 35 years there will be not more than one total loss. The rate is

10/ This amount is less if the producer is underinsured. Also, the loss must have been the result of rain damage.

2.8 percent of the guarantee. For the 3-year period the FCIC plan has been in force, benefit payments to raisin growers are expected to exceed slightly the total of premium revenues.

Although the future experience under the FCIC plan will depend largely on unpredictable rates of crop losses, improvement in the administrative procedures with consequent benefits to producers may be possible. To establish losses for insurance purposes, the corporation obtained bids on the damaged raisins from all interested buyers and settled with producers on the basis of the highest bid. 11/ Packers have claimed some reluctance to bid on off-grade lots because of the uncertainty about how much they could recover above their handling and reconditioning costs. However, recoveries in the current year reportedly have been well above expectations. As a result, some packers may have realized substantial profits from the damaged raisins.

To avoid such a situation in the future, and to provide independent producers with improved insurance protection, independent growers may wish to consider the merits of organizing a limited-purpose cooperative to work closely with the FCIC in administering the raisin insurance program. Such a cooperative could handle the damaged raisins for independent growers as Sun-Maid does for its members, and probably with favorable impacts on insurance costs and benefits.

Expanding Foreign Sales

In contrast with their general lack of optimism about the potential for expanding sales in domestic markets, the raisin-industry leaders and observers seem to think that foreign demand can be increased. The view that exports of California raisins can be increased moderately is supported by a recent University of California study, 12/ by the successes the raisin industry has had in recent years in developing new foreign markets for California raisins, and by the price premiums enjoyed by the California fruit in major foreign markets.

Although further success in expanding raisin exports will depend on the success of the industry in increasing raisin production (mainly by increasing growers' net returns), the methods used by the Raisin Administrative Committee in managing the raisin surplus pool also can have some influence. 13/ Therefore, a review of these procedures is appropriate.

11/ However, the producer is free to take his raisins to the buyer of his own choice without regard to the highest bid.

12/ Goering, Theodore J. California Raisins and the European Economic Community. Calif. Agr. Expt. Sta. Inform. Series in Agr. Econ., 63-2, Nov. 1963.

13/ The raisin industry could also benefit materially if the 1964 "Kennedy Round" of negotiations under the General Agreement on Tariffs and Trade produces substantial reductions on foreign import duties.

The operation of the surplus pool under the Order is basic to the whole structure of raisin marketing. The surplus pool absorbs all raisins not needed in domestic (and Western Hemisphere) markets. Sales from the pool are made only in markets outside the Western Hemisphere. Without the pool, in years of production in excess of domestic-market needs, the support and stabilization of raisin prices and markets in the primary domestic area would not be possible.

Early in the history of the Order, the RAC established the policy of selling all surplus raisins by the end of each crop year. This policy was based on a desire to hold operating costs to a minimum, and on the assumption that foreign market sales are primarily useful in reducing domestic market supplies enough to give satisfactory support to the main market.

In recent years, some industry leaders have begun to take a slightly different view of the function of the surplus pool. One reason is that foreign market sales have been producing net returns to producers that, while lower than domestic prices, have been reasonably attractive. A second factor is that some packers and others are beginning to view markets outside the Western Hemisphere as their best long-term hope for expanding the industry's total sales.

Expansion of foreign markets, however, is difficult when California raisins enter them in a variable volume--on a "feast or famine" basis. Also, when the surplus pool is exhausted each year in August, and a new one is not established until October or later, raisin packers must withdraw from foreign markets for several weeks each year. According to some packers this causes them to lose sales, particularly in Western Europe, at a time when the demand for raisins there is quite strong.

To help packers increase exports and returns from surplus sales, the RAC could provide for a carryover in the surplus pool on September 1 each year. This carryover could vary in volume from year to year and should serve two main functions. First, the availability of surplus raisins in August and September will permit packers to engage actively in selling in foreign markets and to assure foreign customers that deliveries can be made to meet their needs. Having raisins available at all times should help packers to service their foreign customers better and, thus, to sell them more raisins.

The second function of a carryover is partial stabilization of California raisin supplies in export outlets. In the 15-year history of the Federal Raisin Marketing Order allocations to surplus have averaged 15 percent while varying from 0 to 31 percent, and a large allocation has always been followed by a much smaller allocation, or none, and vice versa, with only one exception. The two low production years of 1957-58 and 1958-59 required two zero allocations in succession. Raisin production in California fluctuates in a 2-year cycle, up 1 year and down the next.

In this situation, the potential for partial stabilization of export sales through inventory management is good. For example, if the RAC

had carried over approximately 17,000 tons of surplus raisins from the 1959 crop year and added this volume to the 1960 allocation, export sales could have been stabilized at near 39,000 tons for both years. In general, allowing the carryover to range up to about 25,000 tons in years of high production and down to about 10,000 tons in years of low production would help materially to stabilize California raisin exports. Such action by the RAC is authorized under the Order and it might help to reduce fluctuations in returns to producers from export sales and, hence, in average returns on all sales. But the probable advantage of this form of surplus pool management is the opportunity it affords packers, in the long run, to improve their merchandising and selling effectiveness in export markets, and the resulting benefits to both packers and producers. To help insure this possibility, the RAC might arrange for an economic analysis of this technical problem, at least before it decides to embark on more than a modest, and decidedly partial, stabilization policy.

CONCLUDING OBSERVATIONS

The California raisin industry has made effective use, during the past 15 years, of the tools available in the Federal Raisin Marketing Order and the Agricultural Marketing Agreement Act of 1937 in improving the economic position of both producers and packers. The marketing of raisins is more orderly, and probably more efficient, than it was prior to 1949. Through the Order and the efforts of forceful and dedicated leaders, the industry has achieved some notable successes in raising prices, reducing market instability, developing new markets in other countries, improving product quality, and improving levels of understanding and cooperation within the industry that are so essential for effective policy formation and action. Nevertheless, the industry could use the Federal Raisin Marketing Order more effectively. Some moderate revisions in the Order and in industry policy, as suggested in this report, could improve the industry's market and income positions in important ways. An immediate attack can be made on the instability and uncertainty that pervades both the field (unprocessed raisin) market and the packed raisin market. The initial steps that have a potential for more orderly marketing include (1) establishing the free-tonnage allocation as a fixed number of tons rather than as a percentage of an unknown volume of total production, (2) making this allocation in the mid-summer of each year prior to the time raisin-grape growers must decide whether to sell to wineries or to make raisins, and (3) eliminating the reserve pool.

These are not drastic changes from present practices, but they could have favorable impacts on price stability, the bargaining power of the industry in domestic markets, the efficiency of production and marketing, and the incomes of packers and producers.

Improvement in the present crop-insurance program for raisins is another important action the raisin industry might undertake to give producers more income protection from weather hazards.

Finally, looking into the future, the raisin industry is confronted with a basic, long-term, and complex problem of trying to improve the income position of all its segments. Currently, the industry is financing a substantial program of promotion and merchandising. Although this program could be augmented, it would still be only a partial solution to the broader problem. An outside observer of the industry quickly gains the impression that while more fundamental efforts are needed, the more pressing concern is with current market tactics and with protection of individual shares. In fact, this concern with immediate problems and strategies has seriously restricted attention to longer run problems. Of particular importance is the slow progress that the industry has been making in increasing its efficiency in production, processing, and marketing. In a period when other industries are advancing rapidly in technical and economic efficiency, an industry with a comparatively slow rate of change is at a disadvantage. Therefore, the raisin industry might give serious consideration to the development of a broad, cooperative program of research and education dealing with the technical and economic efficiency of every major industry operation. The potential benefits of such a program are high relative to probable costs and, the industry, fortunately, already possesses the institutional structure necessary to carry out an effective, long-term effort.